



President Signs SBA Reauthorization Package

On December 21, President Clinton signed into law legislation that provides for major changes in the SBA loan programs.

The most significant changes to the 7(a) General Business Loan Guaranty Program, which became effective on December 22, 2000, are as follows:

- The maximum SBA loan guaranty has been raised to \$1 million from \$750,000.
- A maximum gross loan amount of \$2 million has also been established. Loans greater than this amount can no longer be approved.
- Small loans are now considered to be those that are \$150,000 (gross amount) and smaller. The maximum guaranty percentage on these loans is now 85%.
- The maximum guaranty on loans greater than \$150,000 is 75%.
- The guaranty fee structure has been simplified as follows:
 - Loans of no more than \$150,000 - 2% of the guaranteed amount. In addition, lenders are permitted to retain 25% of the fee, which is equal to 50 basis points.
 - Loans more than \$150,000 but not more than \$700,000 - 3% of the guaranteed amount. Lenders are not permitted to retain any of this fee.
 - Loans more than \$700,000 - 3.5% of the guaranteed amount. Lenders are not permitted to retain any of this fee.

For loans approved after September 30, 2000, the 1% reduction in the interest rate on the payment of a guaranty on a defaulted loans has been eliminated.

A new prepayment charge **paid by the borrower to SBA** is also effective for loans where the applications were received by the lender on or before December 22, 2000 and meet the following criteria:

- have a maturity of 15 years or more where the borrower is prepaying voluntarily;
- the prepayment amount exceeds 25% of the outstanding balance of the loan, and
- the prepayment is made within the first 3 years after the date of the first disbursement of the loan proceeds.

The prepayment fee is calculated as follows:

- during the first year after disbursement, 5% of the prepayment amount;
- during the second year after disbursement, 3% of the prepayment amount;
- during the third year after disbursement, 1% of the prepayment amount.

The reauthorization package also:

- Increases the maximum size for loans in the 504 program to \$1 million from \$750,000. For loans that meet the public policy goal, the maximum loan to a borrower was increased from \$1,000,000 to \$1,300,000. Women-owned businesses were also added as a public policy goal and qualify for the higher maximum amount.
- Increases the maximum size for Microloans from \$25,000 to \$35,000
- Increases the maximum size of surety bonds to \$2 million

The budget bill signed by the President provides for a \$10.4 billion authorization level for the 7(a) program and \$3.75 billion in SBA-backed loans under the 504 Certified Development Company program.

In addition to these legislative changes, please refer to the insert which contains a summary of major policy and technical changes to SBA's Loan Processing SOP 50-10 that became effective December 1, 2000.

SBA Expands Loan Officer and Lender Contests

The Hawaii District Office has expanded the SBA Loan Officer of the Year and the Lender of the Year contests to be more competitive for 2001 by adjusting point values and creating new categories.

SBA's Loan Officer of the Year contest acknowledges an individual loan officer for his/her SBA loan making achievements for the past SBA fiscal year. The Lender of the Year contest recognizes the overall SBA loan performance of a banking institution. The competition begins October 1, 2000 and ends September 30, 2001.

In an effort to place more emphasis on the number of loans made, a new baseline value of 2 points will be garnered for each SBA loan approval. One (1) bonus point will continue to be awarded for each loan in SBA's new market groups for 51% woman owned and 51% veteran owned small businesses.

Other bonus points remain unchanged for two other SBA special loan program areas. CapLines will again receive 1 bonus point. This bonus point is awarded in recognition of the additional lender oversight inherent with CapLines. The Export Working Capital Loan program and the new Export Express loan program will receive 2 bonus points each to encourage lenders to assist with Hawaii's emerging global market.

The Lender of the Year contest has been revised. SBA will honor two lenders by dividing the lenders into two new categories. Each new category is based on the total commercial loan portfolio reported to the Federal Deposit Insurance Corporation (FDIC) as of June 2000. Lenders with total commercial loans of \$1 billion or more will compete in Category I and lenders with total commercial loans of less than \$1 billion will compete in Category II.

SBA Loan Officer of the Year awards along with the Lender of the Year for Category I and Category II will be named during our annual awards breakfast set for October 2001.

SBA Loan Officer of the Year

Three months into the Agency's fiscal year – December 31, 2000, the following Officers are in the lead:

<i>Loan Officer</i>	<i>Bank</i>	<i>Branch</i>	<i>Loans X 2 =Pts.</i>	<i>Women</i>	<i>Veteran</i>	<i>Capline</i>	<i>EWCP</i>	<i>Total</i>
Nakama, Gail	ASB	Main	3=6	2				8
Takahashi, Lynn	FHB	Main	2=4				2	6
Yoshizawa, Dirk	BoH	Pearlridge	3=6					6
Lemcke, Paul	CB	Main	2=4		1			5
Takahashi, Wayne	BoH	Pearlridge	1=2				2	4
Cacatian, Nicole	BoH	Kailua	1=2	1				3
Chang, Nathan	ASB	Main	1=2	1				3
Okuhama, Jason	BusLnCt	Richmond	1=2		1			3
Shimozono, Alan	BoH	Waikiki	1=2	1				3
Tadlas, Martin	CB	Main	1=2	1				3
Yamamoto, Gwen	CPB	Main	1=2	1				3
Okumoto, Michael	BoH	Hilo	1=2	1				3



SBA Hawaii District Office
Loan Activity, FY 2001
 Three Months Ended 12/31/00

<u>Bank</u>	<u>No. of Loans</u>	<u>Loan Amount(000's)</u> <u>Gross</u>	<u>SBA</u>
First Hawaiian Bank/Bank of the West	13	2359.3	1741.1
Bank of Hawaii	10	1875.0	1401.1
Bank of Guam	6	553.0	423.4
Central Pacific Bank	5	725.0	548.0
Citizens Security Bank	5	720.5	547.2
American Savings Bank	5	296.0	229.3
City Bank	4	543.0	413.9
Hawaii National Bank	2	151.0	120.8
Business Loan Center	1	205.0	153.8
BankPacific, Ltd.	1	50.0	40.0
Total 7(a) Loans	52	7477.8	5618.6
HEDCO 504 Loans	4	755.0	755.0
MicroLoans	5	43.0	43.0
Grand Total	61	8275.8	6416.6

NUMBER OF LOANS BY COUNTY & GUAM

	<u>Oahu</u>	<u>Hawaii</u>	<u>Maui</u>	<u>Kauai</u>	<u>Guam</u>	<u>Total</u>
First Hawaiian Bank/Bank of the West	8	2	0	3	0	13
Bank of Hawaii	7	1	1	1	0	10
Bank of Guam	0	0	0	0	6	6
Central Pacific Bank	4	1	0	0	0	5
Citizens Security Bank	0	0	0	0	5	5
American Savings Bank	4	1	0	0	0	5
City Bank	3	0	1	0	0	4
Hawaii National Bank	1	1	0	0	0	2
Business Loan Center	1	0	0	0	0	1
BankPacific, Ltd.	0	0	0	0	1	1
Total 7(a) Loans	28	6	2	4	12	52
Total 504 Loans	1	1	1	1	0	4
MicroLoans	5	0	0	0	0	5
Grand Total	34	7	3	5	12	61

Welcome to SBA!
Erlyne Lum – Business Opportunity Specialist
Mary Spencer – Procurement Center Representative

The SBA Hawaii District Office is pleased to welcome Erlyne Lum as a Business Opportunity Specialist in the 8(a) Business Development program. Erlyne had previously been with the SBA in the 1980's as an Industrial Specialist in the Office of Procurement Assistance, Certificate of Competency Program, in Washington, D.C.

Between her stints at SBA, Erlyne was an Economic Development Specialist at the State of Hawaii Department of Business Economic Development and Tourism (DBEDT). While at DBEDT, Erlyne worked on a range of projects to help promote Hawaii companies through various means including conferences, seminars, and trade shows. Most recently at DBEDT, Erlyne worked with Hawaii professional services companies in the architectural-engineering, education, and health care industries interested in exporting their services internationally.

The Hawaii District Office is also pleased to have Mary Spencer on board as SBA's Procurement Center Representative (PCR) in Hawaii. Mary's responsibilities include serving as an advocate for the small business community, ensuring that Hawaii's small businesses obtain their fair share of Federal government contracts, and assisting Federal agencies in implementing their small business programs and goals.

Mary has been with the SBA for over 25 years and brings extensive experience to the PCR position. Mary served a Contract Specialist in SBA's 8(a) Business Development program in Los Angeles for 12 years before becoming the PCR. While Mary is an SBA employee reporting to the Office of General Contracting in Washington D.C., her office is located with the U. S. Department of Navy, Pacific Division, Facilities Engineering Command at 4262 Radford Drive, Building 62, at Pearl Harbor. She can be reached at (808) 474-7317 or (808) 541-2951.



HAWAII DISTRICT OFFICE
300 ALA MOANA BLVD. ROOM 2-235
HONOLULU, HI 96850
PHONE: (808) 541-2990
FAX: (808) 541-2976

SOP 50-10(4)

Summary of Major Changes Contained in SOP 50-10(4), Revision E

The following is a summary of the more significant changes and clarification to policies contained in Revision E of the SBA loan processing SOP. A complete version of SOP 50-10(4), including Revision "E", can be accessed through www.sba.gov/banking/indexregs.html or www.sba.gov/library/soproom.html. The effective date of these changes is December 1, 2000.

Contents of Application

The SOP has been clarified to require that every application contain an itemized list that includes the serial and identification numbers of all collateral that had an original value greater than \$500.

Personal Resources Rule

The rule has been clarified to apply to each person who owns less than 20% when the person is married to another owner and/or has dependent children who are owners and when the combined ownership of the spouses and/or dependent children is 20 percent or more.

Liquid Assets

For purposes of the personal resources "test," the cash surrender value of life insurance is a liquid asset. SBA's policy has been revised to allow for an individual's total personal liquid asset to be reduced when the life insurance policy has been assigned as part of the requested financing or assigned to an existing loan. The reduction can be the lesser of the CSV pledged to secure a debt or the amount of the debt. Other liquid assets that serve as security on other debt (obtained over 6 months from date of application) may also be exempted from the calculation of total available personal resources.

However, personal liquid assets that secure any debt obtained within 6 months of an application for guaranty to SBA are not exempt.

Form 912

A complete listing of terms referenced on the SBA Form 912, Statement of Personal History, has been more clearly defined.

Each owner, partner, officer, director, and holder of 20% or more of voting stock, as well as any person who can speak for the applicant concern **must** complete a Form 912. Every individual completing a 912 must answer each question fully and provide all details about any affirmative response. **An affirmative response is required even when the record is supposedly sealed, expunged or otherwise unavailable.**

If an individual answers in the affirmative to one of the three "character" questions, the application must not be processed under PLP, CLP, SBAExpress, ALP, or PCLP procedures and the following requirements must also be met:

- A full understanding, in writing, of the offense must be provided by the individual submitting the Form 912.
- An FBI Character Evaluation (name check) must be requested by the SBA for every affirmative response regardless of when the offense took place. This is mandatory even if the 912 has been cleared for processing by a field office or by the LowDoc Processing Center. Such a clearance for processing and a fingerprint waiver is based on a single minor offense within the last 10 years or on several minor offenses remote in time. A clearance for processing may also be obtained if the Associate Administrator for Financial Assistance (AA/FA) cleared the prior offense on a previous application and no new offenses have occurred.

A fingerprint check is mandatory for any felony, regardless of when the offense occurred. The subject individual must complete a Fingerprint Card, FD 258 to SBA for clearance. However, this requirement may be waived if previously cleared by the AA/FA or designee and no new offenses have occurred. A fingerprint check is also required for non-felony offenses when the application is placed on hold (i.e., not cleared for processing) for further investigation.

Loans to Aliens

The policies pertaining to when a business owned by an alien(s) is eligible for SBA financial assistance have been revised.

Some of the changes include:

- “Legal Permanent Residents” (LPR) also known as “Permanent Resident Aliens” must provide the INS Form I-551 (551) as acceptable evidence of LPR status. The 551 must be current at the time it is submitted with the application.
- Verification of INS status is required for all aliens, including LPRs, and to all cases regardless of the processing method or loan program.
- The policy that an alien must be able to remain in the U.S. for half the term of the loan is eliminated.
- Requirements related to loans to legal aliens residing in the United States without “Legal Permanent Resident” status have been significantly enhanced. Businesses and their owners in this category must provide verification of INS status as well as meet the following requirements:
- Provide evidence that separate continual and consistent “management” (in addition to the owners) exists and will continue indefinitely.
- “Management” must have U.S. citizenship or verified Legal Permanent Resident Alien status.
- “Management” must have operated the business for at least 1 year prior to the application date. The application must contain assurance that “management” is expected to continue in place indefinitely. (This requirement prevents financial assistance to “start up” businesses owned by aliens who do not have LPR status.)
- The personal guaranty of “management” must be considered as a loan condition.
- Sufficient collateral must be pledged to repay the loan any time during its life.

To obtain verifications of INS status, lenders must submit an INS Form G-845, “Document Verification Request,” with supporting information to the nearest INS office. The form is available on the INS website at www.ins.doj.gov. INS releases information about the status of an alien to lenders **ONLY** when a signed and dated authorization from the alien is attached and submitted with the Form G-845 on the alien. Sample authorization letters can be obtained by calling Kim Hite of the SBA Hawaii District Office at (808) 541-3024. Verification requests may be FAXED to the Hawaii INS office at (808) 532-4687.

Debt Refinancing

The SOP has been clarified to acknowledge that all balloon payment notes are not reasonable. In addition, balloon payment notes along with interest only notes are exempted from the substantial benefits test otherwise known as the 20 percent improvement test.

Also, when refinancing involves more than one debt, the requirement that each debt contribute at least a 10 percent improvement has been eliminated. In addition, when refinancing a lender’s own debt, the lender needs to certify that its debt has been current for the past 36 months rather than having always been current.

Overabundance of Collateral (Availability of Credit on Reasonable Terms)

When refinancing a debt that was over secured, consideration can be given to securing the new loan with less collateral, providing the loan is fully secured based on the way SBA values collateral.

However, a loan that did not have an overabundance of collateral when originally made can not be reclassified as having an overabundance just because the principal balance decreases and/or the value of the assets securing the loan appreciates. An overabundance of collateral can not be created through the process of making normal payments on a collateralized loan just because the equity in the collateral may have increased over the duration of that loan.

Loans to Purchase Businesses with Existing SBA Loans

The policy has been clarified to **require** that an application to purchase a business with an existing SBA loan be processed through standard procedures and not under any expedited loan processing program (PLP, CLP, LowDoc or SBAExpress).

Rentable Property

The determination of how much space a business that builds or acquires a facility with SBA proceeds can lease to an independent third party is clarified, by defining rentable property to **only include “interior space.”**

Rental Income as a Source of Repayment

A separate review and analysis of both the operational income and rental payments must now be provided when an applicant business has to rely on rental income to be able to demonstrate overall repayment.

In addition, when rental income is relied on to make the case for repayment ability, the validity of projected rental income must be independently substantiated. It is insufficient to justify the receipt of rental income just because the space is available. Evidence can include but are not limited to the longevity of existing rental agreements that will transfer with the

purchase of an existing building; or an appropriate Real Estate Association Report on the need and desirability for the type of space that the applicant will be able to offer for lease.

Loan Increases

Increases to 7(a) loans can only be made up to a maximum of 18 months after approval or 1 year after initial disbursement, whichever comes first. All increases are subject to statutory, administrative, and program maximums regardless of the disbursement status.

Lenders should send their requests for increases to the office that has responsibility for the loan at the time the lender makes the request.

Guaranty Fees

A new centralized notification system of past due guaranty fees is now in place and provides for the automatic cancellation of a loan when the guaranty fee is not paid in full within 120 days from approval. Cancellation will also occur when the fee is only partially paid.

Also, reinstatement of the guaranty after cancellation now requires that payment of the full fee accompany the lender's written request for reinstatement. The lender must also certify that there has been no adverse change and SBA funding must be available since the funds reserved for the loan are returned to the general account at the time of cancellation.

Where additional guaranty fees are due for loan increases and loan renewals, the additional guaranty fee associated with the action must be submitted to and received by the SBA office processing the request. Without the additional fee, the request will not be processed.

Zero Percent Guaranty

The SOP clarifies that a zero percent guaranty cannot be provided for a portion of a loan that includes proceeds for an ineligible purpose or for any portion of the loan made to an ineligible business.

Lien Recordation

The SOP has been clarified to provide that all liens on collateral must be taken/secured for the "Full" amount of the loan to protect the Government's interest or the maximum permitted by appropriate State law.

Questions regarding these changes can be directed to Hawaii District Office Economic Development Division staff Kimberly Hite (808) 541-3024, Michael Youth (808) 541-2984 or Jerry Hirata (808) 541-2969.